

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

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TO SECSTATE WASH DC PRIORITY 6520

INFO AMEMBASSY HELSINKI

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E.O. 11652: N/A

TAGS: ETRD, OECD, FI

SUBJECT: FINNISH IMPORT DEPOSIT SCHEME

REF: OECD PARIS 07873, 07031, 06722

1. SUMMARY. SECRETARIAT NOTE ON FINNISH SCHEME DOWN-PLAYS OIL COSTS AS FACTOR IN FINNS' PROBLEMS AND EFFEC-TIVENESS OF IMPORT SCHEME AS SOLUTION, WHILE IMPLYING THAT MORE RESTRAINT OF DOMESTIC DEMAND IS NEEDED.

ACTION REQUESTED: INSTRUCTIONS FOR MEETING OF COUNCIL WORKING PARTY, RESCHEDULED FOR APRIL 22. END SUMMARY

2. FOLLOWING IS SUMMARY OF ANALYSIS AND ISSUES SECTIONS OF NOTE PREPARED BY SECRETARIAT FOR MEETING OF COUNCIL WORKING PARTY ON FINNISH IMPORT DEPOSIT SCHEME, NOW SCHEDULED TO TAKE PLACE APRIL 22 INSTEAD OF APRIL 17.

A. ANALYSIS: SECRETARIAT NOTES THAT WHILE OIL PRICE INCREASES CONTRIBUTED TO DETERIORATION IN FINNISH TRADE BALANCE, FINLAND'S TERMS OF TRADE HAVE ON WHOLE NOT SUFFERED GREATLY. INCREASED TRADE DEFICIT IS

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ASCRIBED TO THREE FACTORS: (L) CONTINUED EXPANSION OF

DOMESTIC DEMAND (APPARENTLY STEMMING PRIMARILY FROM PRIVATE SECTOR) WHICH HAD BEEN UNDERESTIMATED BY AUTHORITIES; (2) RAPID GROWTH IN IMPORTS REFLECTING BUNCHING OF DELIVERIES OF SHIPS AND AIRCRAFT, INCREASED PURCHASES OF CONSUMER DURABLES RESULTING FROM 1974 INCOMES SETTLEMENT, AND SPECULATIVE DEMAND ANTICIPATING IMPORT CONTROLS; AND (3) WEAKENING OF DEMAND FOR MAJOR FINNISH EXPORTS. IN ASSESSING IMPACT OF IMPORT DEPOSIT SCHEME, SECRETARIAT IDENTIFIES THREE MAIN DETERMINANTS: PROBABLE EARLY HALT TO SPECULATIVE PURCHASES; MINOR EFFECT OF ADDITIONAL IMPORT COSTS RESULTING FROM SCHEME; AND POSSIBLE LIQUIDITY SHORTAGE FOR IMPORTERS DEPENDING ON AVAILABILITY OF FOREIGN CREDITS AND OTHER DOMESTIC MONETARY DEVELOPMENTS. WHILE SECRETARIAT NOTES FINNS' INTENTION THAT PRICE CONTROL SYSTEM NOT ALLOW COSTS ARISING FROM IMPORT DEPOSIT SCHEME TO BE PASSED THROUGH, PAPER GENERALLY DEFERS JUDGMENT ON EFFECTIVENESS OF OTHER POLICY MEASURES TAKEN OR PLANNED BY GOF.

B. DISCUSSION ISSUES: WHAT ARE MAIN FACTORS BEHIND DETERIORATION IN EXTERNAL ACCOUNTS? WHAT IS THE OUTLOOK FOR EXPORTS, IMPORTS AND THE CURRENT BALANCE IN 1975? TO WHAT EXTENT CAN IMPORTERS REDUCE EFFECTS OF IMPORT DEPOSIT SCHEME BY INCREASING TRADE CREDITS FROM FOREIGN EXPORTERS? WHAT MEASURES TO RESTRAIN DOMESTIC DEMAND HAVE BEEN IMPLEMENTED? WHY WAS IT FELT THAT STRONG MEASURES TO RESTRICT THE GROWTH OF DOMESTIC DEMAND WERE NOT LIKELY TO BE SUFFICIENT TO IMPROVE THE FOREIGN BALANCE? TO WHAT EXTENT WOULD A DEVALUATION OF THE MARKKA IMPROVE THE TRADE BALANCE? HOW LARGE ARE THE UNUSED BORROWING FACILITIES AVAILABLE TO FINLAND? UNDER WHAT CONDITIONS WOULD AN EARLY TERMINATION OF THE DEPOSIT SCHEME BE FEASIBLE? WHAT CRITERIA WERE USED TO DETERMINE THE COMMODITY COVERAGE OF THE DEPOSIT SCHEME AND THE RATE TO BE APPLIED TO EACH COMMODITY?

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WHAT IS THE LIKELY EFFECT OF THE SCHEME ON THE
GEOGRAPHICAL PATTERN OF IMPORTS?

2. MISSION COMMENT: IMPLICATION OF SECRETARIAT PAPER
IS THAT FIHNS ARE GUILTY OF MISMANAGEMENT OF DOMESTIC
DEMAND RATHER THAN VICTIMS OF OIL CRISIS, AND CASE FOR
THIS INTERPRETATION MIGHT BE EVEN STRONGER IF PAPER GAVE
MORE ATTENTION TO INFLATION, EMPLOYMENT, AND EXPORT
PERFORMANCE. IN MISSION VIEW PRIMARY US OBJECTIVES ARE
TO ENCOURAGE FINNS TO REMOVE OR LIBERALIZE DEPOSIT
MEASURE AS SOON AS POSSIBLE AND TO DISSUADE OTHERS FROM
TAKING SIMILAR ACTIONS. WE SHOULD, THEREFORE, BE PRE-
PARED TO PROBE RATHER DEEPLY INTO FINNISH SCHEME, ITS
RATIONALE, AND POSSIBLE ALTERNATIVE POLICIES, AND SEEK
MEANS TO KEEP MULTILATERAL PRESSURE ON FINNS THROUGH,
FOR EXAMPLE, PERIODIC REVIEW OF FINNISH ACTION IN OECD.
FURTHER OBJECTIVE WOULD BE TO AVOID, INSOFAR AS POSSIBLE,
IDENTIFICATION OF OTHER COUNTRIES WITH FIHNISH SITUATION.
WE COULD DO THIS BY EMPHASIZING UNIQUE ASPECTS OF
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FINNISH PROBLEM (SUCH AS RELATIVELY HIGH EXPORT
DEPENDENCE ON SINGLE CYCLICALLY SENSITIVE INDUSTRY)
AND BY INDICATING SCEPTICISM THAT ANYONE ELSE LIKELY TO
BE IN SIMILAR SITUATION. FINALLY, IT WOULD ALSO
PROBABLY BE USEFUL TO AVOID GIVING ANY OTHER COUNTRY
OCCASION TO USE OECD TREATMENT OF FINNS AS AN EXCUSE
FOR DALLYING ON PLEDGE RENEWAL. IN THIS REGARD IT MIGHT
BE HELPFUL TO RECOGNIZE THE ROLE PLAYED BY WEAK WORLD
DEMAND IN THE FINNS' TROUBLES, WHILE MAKING CLEAR THAT
OTHER FACTORS SEEM MORE RELEVANT IN FINNISH CASE. ACTION
REQUESTED: INSTRUCTIONS FOR COUNCIL WORKING PARTY MEET-
ING, INCLUDING WASHINGTON VIEWS ON WHAT COMMENTS WOULD

BE APPROPRIATE REGARDING FINANCING OF FINNISH DEFICIT.

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